Marketing Unsold Condos

How to fill vacant units in a competitive market

BY TARA WELAT

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As the myriad of condominium projects in the GTA approach completion, developers might consider the option of offering "rent-to-own" units as a way of marketing their unsold units.

The term rent-to-own reflects those agreements which combine an occupancy agreement for a specified time period with a purchase agreement, for an agreed-upon price. Monthly "payments" are required of prospective purchasers and a portion of each payment is applied to the purchase price as a "deposit" and the remaining portion is a non-refundable "occupancy fee," which must be determined in accordance with the Condominium Act (Ontario) (the Act). At the end of the occupancy period, the purchaser must come up with the balance of the purchase price.

From a marketing perspective, it's easy to see why the rent-to-own option would appeal to prospective homeowners:

- Typical agreements of purchase and sale for condominium units require deposits of at least 20-25 percent of the purchase price while the rent-to-own option allows the opportunity to purchase a condominium unit by payment of five percent of the purchase price.
- Prospective purchasers can lock in a purchase price during the occupancy period until the final closing.
- The option affords the purchaser a longer period of time to arrange mortgage financing and/or repair credit.

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It is equally beneficial for those developers who would otherwise lease unsold units as the rent-to-own option affords an added advantage that at the end of the occupancy period, the developer may very well have a bona fide purchaser of the unit.

Deposits made by a purchaser under a typical agreement of purchase and sale are held in trust and protected by Tarion, for up to $20,000, which provides deposit insurance in the event the sale is not completed. In the rent-to-own agreements, only a small fraction of the initial payments are attributed as "deposits" and thus eligible for deposit insurance under the Act. This may expose some purchasers to risk with developers that may face economic difficulty. This risk is mitigated somewhat due to the fact that most rent-to-own options are offered in projects that are very close to completion. On the other hand, developers are also exposed to risk by entering into agreements with purchasers who may not have the financial means to complete the transaction.

If a purchaser opts out of purchasing the unit in accordance with the terms of the rent-to-own agreement, the purchaser is deemed to be in default and the deposits (together with the non-refundable occupancy fees) are forfeited. Arguably, the developer is in no worse position had it put up the unit for lease. **OHB**